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Commissioner Paul Newman
Arizona Corporation Commission
1200 W. Washington Street
Phoenix, AZ 85007

October 24, 2011

Arizona Corporation Commission

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Re: Arizona Public Service Company, Purchase of Generating Assets from
Southern California Edison (Four Corners) **Docket No. E-01345A-10-
0474**

Dear Commissioner Newman:

Western Resource Advocates and Environmental Defense Fund provide the
following responses to your letter of October 13, 2011.

Four Corners Lawsuit

You asked whether a recent lawsuit filed against Arizona Public Service Company
affects this docket. Because this action has been anticipated by APS, we do not think that
the suit affects this docket.

The suit at issue, Diné CARE v. APS, 11-cv-889, D. New Mexico, alleges that
APS violated the Clean Air Act's New Source Review program by failing to apply for
and receive a permit prior to beginning modifications to Units 4 and 5 in 1985-86 and
again starting in 2007. The suit asks the Court to order APS to undergo permitting, to
take on a mitigation project beneficial to residents in the area, and requests civil penalties.
APS has been aware of the possibility that this suit might be filed and presented this risk
to the Commission in its application and testimony. *See* APS Application at 7;
Schiavioni Direct Testimony at 4; *see also* APS Letter to Regional Administrator Jared
Blumenfeld (closure of Units 1-3 and Selective Catalytic Reduction technology proposed
for NOx at Units 4-5 to help address issues under several Clean Air Act programs
including New Source Review & noting numerous legal risks both pending and
anticipated) (Nov. 24, 2010). The filing of the suit does not materially affect the
Commission's assessment of APS' requests under Dec. No. 67744.

Re-Sale Cost of Natural Gas-Fired Power Plants

You asked whether the price per kW of several gas-fired power plants reported in *Power Engineering* is relevant to this docket. We believe that the average sale price of these four power plants has no significant bearing on the Commission's evaluation of the transaction between Southern California Edison and APS. The power plants comprising the sale you referenced are a mixed bag. They range in age from 8 years old to 19 years old, they include combined cycle power plants, combustion turbines, and a cogeneration project, and they are located in a variety of markets – South Carolina, Alabama, California, and Virginia. Moreover, we do not know anything about the contracts to sell electricity from these power plants or the motivation of NextEra Energy in selling the plants. The contract provisions, including power prices paid by the purchasers of the electricity, the duration of the contracts, and so forth, are critical in determining the re-sale value of the resources.

Recent Study on the Economics of Coal-Fired Electricity

You cited a recent article on the economic value of pollution [Nicholas Z. Muller, Robert Mendelsohn, and William Nordhaus, "Environmental Accounting for Pollution in the United States Economy," *American Economic Review* 101 (August 2011): 1649–1675]. This study reinforces and advances other work on the economic value of emissions from power plants.¹ A major conclusion from this research is that coal-fired power production has very large health and other environmental impacts that are not taken into account when considering only the market price of electricity produced by coal-fired power plants. It underscores the economic benefits of the proposal pending before the ACC to transition from coal-fired generation at Units 1-3 at the Four Corners Power Plant and to install modern controls to address the extensive volume of NOx discharged from the remaining capacity.

It also highlights the importance of the Commission's consideration of the full societal costs associated with electricity resource planning in Arizona including the Commission ordering APS to undertake a comprehensive planning process to retire and/or modernize pollution controls for additional coal-fired power plants within the next

¹ See, for example: Clean Air Task Force, "Death and Disease from Power Plants," interactive map, http://www.catf.us/coal/problems/power_plants/existing/. Leland Deck, Supplemental Answer Testimony, Public Utilities Commission of Colorado, Docket No. 07A-447E, May 27, 2008. Jonathan Levy, Lisa Baxter, and Joel Schwartz "Uncertainty and Variability in Health-Related Damages from Coal-Fired Power Plants in the United States," *Risk Analysis* 29 (2009): 1000-1014. National Research Council, *The Hidden Cost of Energy*, Washington, D.C.: National Academies Press, 2010. Thomas Sundqvist and Patrik Söderholm, "Valuing the Environmental Impacts of Electricity Generation: A Critical Survey," *The Journal of Energy Literature*, 8(2) (2002).

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10 years or so and include coal plant retirement options in its resource plans to be filed after a decision in this docket. The options should include portfolios of clean energy resources, including large quantities of renewable energy and energy efficiency, to replace the retired energy and capacity. APS indicated that it would include additional retirements of coal-fired power plants as options in future resource plans.

We are also concerned that the very large benefits of retiring Four Corners Units 1-3 early, as proposed by APS, could be delayed or destroyed if the Commission does not approve APS' pending proposal. We respectfully reiterate our request for the Commission to approve that proposal and to rigorously consider the mix of APS' resources and the proper role of coal-fired generation, including health and environmental impacts, in a comprehensive manner in the resource planning process.

Thank you for the opportunity to respond to your questions. We hope these responses are helpful.

Sincerely,



Timothy M. Hogan
Attorney for Western Resource
Advocates and Environmental Defense
Fund

ORIGINAL and 13 COPIES of
the foregoing filed this 24th day
of October, 2011, with:

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COPIES of the foregoing
electronically transmitted
this 24^h day of October, 2011
to:

All Parties of Record

